

Message Text

CONFIDENTIAL

PAGE 01 EC BRU 02208 01 OF 02 121233Z

53

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 PA-04

PRS-01 USIA-15 SWF-02 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 LAB-06 SIL-01 SAM-01 IO-14 XMB-07 OPIC-12

OIC-04 DRC-01 /181 W

----- 056533

R 121138Z APR 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 6718

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 2208

PASS TREASURY, FRB

E.O. 11652: XGDS

TAGS: EFIN, EEC

SUBJ: EC MONETARY COMMITTEE DISCUSSION OF GOLD, APRIL 5

REF: A) EC BRUSSELS 1808; B) EC BRUSSELS 1531

1. SUMMARY: MISSION CONTACTS HAVE TOLD US THE MONETARY
COMMITTEE'S DISCUSSION OF GOLD REVEALED GENERAL AGREEMENT
ON CERTAIN PRINCIPLES, E.G. THAT SOME MEMBER STATES NEEDED TO
ACTIVATE THEIR RESERVES EITHER TO FACE CURRENT ACCOUNT DEFICITS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 EC BRU 02208 01 OF 02 121233Z

OR TO INCREASE THEIR CREDIT WORTHINESS. THEY FURTHER

AGREED THAT THE ABSENCE OF AN INTERNATIONAL SOLUTION, A LIMITED TRANSITIONAL, REGIONAL--OR EVEN COMMUNITY--SOLUTION SHOULD BE CONSIDERED. HOWEVER, THERE WAS NO CONSENSUS IN FAVOR OF ANY PARTICULAR TECHNICAL SOLUTION. ACCORDING TO OUR SOURCES, THE MEETING OF EC FINANCE MINISTERS IN THE NETHERLANDS APRIL 22 MIGHT CONSIDER EITHER A) A COMMON EC APPROACH TO AN INTERNATIONAL TRANSITIONAL SOLUTION OR B) A REGIONAL ARRANGEMENT THAT WOULD PERMIT OPTIONAL TRANSACTIONS IN GOLD AMONG WILLING BUYERS AND WILLING SELLERS--WITH NO NET CENTRAL BANK PURCHASES FROM THE PRIVATE MARKET. END SUMMARY.

2. THE COMMITTEE'S DISCUSSION RESULTED IN PREPARATION OF A SHORTENED VERSION OF THE OSSOLA PAPER (REF A). THE PAPER REFLECTS THE STATE OF THE COMMITTEE'S EXAMINATION OF THE VARIOUS OPTIONS ON GOLD. ON THE BASIS OF THIS PAPER (WHICH WE HAVE SEEN IN STRICTEST CONFIDENCE, BUT DO NOT POSSESS) AND DISCUSSIONS WITH OFFICIALS HERE, IT IS POSSIBLE TO SAY THAT THE MEMBER STATES AGREE ON THE FOLLOWING PRINCIPLES: A) SOME MEMBER STATES HAVE A GENERAL NEED TO ACTIVATE THE GOLD COMPONENT OF THEIR RESERVES EITHER TO FACE CURRENT ACCOUNT DEFICITS, OR AS A SORT OF "WINDOW DRESSING", TO INCREASE THEIR CREDIT WORTHINESS; B) ANY SOLUTION SHOULD ADDRESS ITSELF TO EXTERNAL AS WELL AS INTRA-EC TRANSACTIONS; C) THERE IS NEED FOR A LONG-TERM SOLUTION, BEARING IN MIND THAT THE SDR SHOULD BE THE PRINCIPAL RESERVE ASSET IN A REFORMED INTERNATIONAL MONETARY SYSTEM; D) THERE IS NEED FOR A TRANSITIONAL SOLUTION TO WHICH IT WOULD BE DESIRABLE TO ASSOCIATE THE IMF AND THE US. SUCH A SOLUTION WOULD GIVE NEEDY CENTRAL BANKS MORE FREEDOM THAN THEY HAVE HAD IN THE PAST; E) IF THERE IS NO INTERNATIONAL SOLUTION, A LIMITED REGIONAL SOLUTION, PERHAPS WITH A CERTAIN COMMUNITY CHARACTER, SHOULD BE CONSIDERED ON A TEMPORARY BASIS; F) THERE SHOULD BE NO NEW OFFICIAL PRICE FOR GOLD; AND G) ARTICLE 4, SECTION 2 (AFFECTING GOLD PURCHASES BASED ON PAR VALUES) OF THE IMF ARTICLES OF AGREEMENT IS NOT APPLICABLE IN THE PRESENT CIRCUMSTANCES.

3. THE PAPER ALSO LISTS THE TECHNICAL OPTIONS WHICH THE MONETARY COMMITTEE CONSIDERED BUT ON WHICH CONSENSUS WAS NOT REACHED. THESE OPTIONS ARE: A) CENTRAL BANK GOLD SALES IN CONFIDENTIAL

CONFIDENTIAL

PAGE 03 EC BRU 02208 01 OF 02 121233Z

THE FREE MARKET; B) FREE (WILLING BUYER/WILLING SELLER) TRANSACTIONS IN GOLD AMONG CENTRAL BANKS AND ON THE FREE MARKET; C) FREE TRANSACTIONS IN GOLD AMONG CENTRAL BANKS ACCOMPANIED BY ARRANGEMENTS ON THE BEHAVIOR TO BE ADOPTED WITH RESPECT TO THE MARKET (THAT IS, UNSPECIFIED AND ADJUSTABLE BUYING AND SELLING LIMITS); D) PURCHASES AND SALES FOR THE PURPOSE OF STABILIZING THE MARKET PRICE; E) TRANSACTIONS THROUGH THE INTERMEDIARY OF THE EUROPEAN

MONETARY COOPERATION FUND; F) FIXING A GOLD PRICE RELATED TO THAT OF THE FREE MARKET; AND G) USE OF GOLD AS COLLATERAL AGAINST LOANS IN THE FORM OF INTERNATIONAL MEANS OF PAYMENT (CURRENCIES, SDRS, AND PERHAPS EC UNITS OF ACCOUNT).

4. THE COMMITTEE'S PAPER SUMMARIZES THE PRINCIPAL DISADVANTAGES AND PROSPECTS OF SOME OF THE OPTIONS. FOR EXAMPLE, A IS CONSIDERED UNLIKELY, SINCE CENTRAL BANKS CAN SELL GOLD ON THE FREE MARKET NOW BUT HAVE REFRAINED FROM DOING SO. SOME MEMBER STATES BELIEVE OPTION C IS PRAGMATIC, SUPPLE, AND WOULD NOT BE AN INDIRECT MEANS OF RESTORING AN OFFICIAL GOLD PRICE. OPTION D WAS FOUND BY MOST MEMBERS OF THE COMMITTEE TO BE CLOSE TO FIXING A NEW OFFICIAL PRICE. SOME MEMBERS, PARTICULARLY THE FRG, ALSO INDICATED UNWILLINGNESS TO ACCEPT ANY OBLIGATION TO BUY OR SELL GOLD OR TO ABIDE BY FIXED RULES. OPTION E--UNDER WHICH THE MONETARY COOPERATION FUND WOULD EITHER CREDIT A GOLD SELLER WITH UNITS OF ACCOUNT FOR INTRA-EC SETTLEMENTS OR LEND THE SELLER CURRENCIES BORROWED TEMPORARILY FROM OTHER MEMBER STATES--WOULD RAISE PROBLEMS INVOLVING DEFINITION OF THE UNIT OF ACCOUNT AND DISTRIBUTION OF PROFITS FROM GOLD SALES. IT WAS ALSO RECOGNIZED THAT OPTION G--IN EFFECT A TEMPORARY CEDING OF GOLD--WOULD POSE PROBLEMS OF PROCEDURE IN THE EVENT OF DELAYS IN REIMBURSING CREDITS. THE MEMBERS OF THE COMMITTEE WERE UNABLE TO FIND ANY FORMULA ACCEPTABLE TO ALL FOR FIXING A MARKET-RELATED GOLD PRICE INVOLVING AN OBLIGATION TO BUY AND SELL.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 EC BRU 02208 02 OF 02 121210Z

53

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 SWF-02 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 LAB-06 SIL-01 SAM-01 IO-14 XMB-07

OPIC-12 OIC-04 DRC-01 /187 W

----- 056364

R 121138Z APR 74

FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 6719
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 2 OF 2 EC BRUSSELS 2208

PASS TREASURY, FRB

5. IN THE GENERAL COMMITTEE DISCUSSIONS, NATIONAL POSITIONS REMAINED LARGELY AS PREVIOUSLY REPORTED, EXCEPT THAT THE UK, WHILE ASSERTING NON-INTEREST IN THE PROBLEM, INDICATED WILLINGNESS TO ACCEPT OPTIONAL TRANSACTIONS AMONG MONETARY AUTHORITIES AT MUTALLY AGREED PRICES--PROVIDED THERE WERE NO NET PURCHASES. THIS POSITION WAS APPARENTLY THE SAME AS THAT PRESENTED BY DEREK MITCHELL AT THE C-20 DEPUTIES' MEETING IN WASHINGTON.

6. FRANCE AND ITALY CONTINUED TO PRESS ON AN URGENT BASIS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 EC BRU 02208 02 OF 02 121210Z

FOR A REGIONAL APPROACH (I.E. OBLIGATORY INTRA-COMMUNITY SETTLEMENTS). THE FRENCH WANT AN ACCOUNTING TYPE SOLUTION FOR THE PURPOSE OF REVALUING THEIR RESERVES, WHICH, IN TURN, WOULD BUTRESS REQUESTS FOR SHORT AND MEDIUM-TERM CREDITS. THE FRENCH REPRESENTATIVE (HABERER) PRESENTED A STATEMENT CALLING FOR INTERNATIONAL SUPPORT FOR WHAT WOULD IN EFFECT BE A NEW OFFICIAL PRICE. THE BELGIANS SEE A ROLE FOR GOLD AS COLLATERAL AGAINST LOANS.

7. THE GERMANS, AND TO SOME EXTENT THE DUTCH, MAINTAINED THEIR OPPOSITION TO ANY SOLUTION THAT WOULD TEND TO SUPPORT, DIRECTLY OR INDIRECTLY, A NEW OFFICIAL PRICE FOR GOLD OR THAT WOULD HAVE AN INFLATIONARY BIAS OWING TO NEW LIQUIDITY CREATION.

8. OUR CONTACTS BELIEVE THAT EVENTUALLY OPTION B (THE DANISH PROPOSAL--REF A) IS GIVEN THE BEST CHANCE OF WINNING SUPPORT, PARTICULARLY IF IT IS NARROWED SOMEWHAT TO INCLUDE THE UK IDEA OF NO NET PURCHASES OVER A CERTAIN PERIOD. (THE GERMANS ARE REPORTEDLY WILLING TO GO ALONG WITH THE PURELY OPTIONAL WINNING BUYER/WILLING SELLER APPROACH IN RECOGNITION OF THEIR

PARTNER'S NEEDS--ALTHOUGH THEY WOULD ESCHEW SUCH TRANSACTIONS THEMSELVES.)

9. OUR SOURCES ALSO TELL US THAT THE EC CENTRAL BANK GOVERNORS MET IN BASLE APRIL 10 AND EXPRESSED SUPPORT FOR A SOLUTION BASED ON OPTIONS B AND C. A LONG-TERM INTERNATIONAL SOLUTION INVOLVING THE IMF AS AN INTERMEDIARY IS ALSO REPORTEDLY GAINING GROUND. AT BASLE THE COMMISSION REPRESENTATIVE DEFENDED OPTION E (INVOLVING THE MONETARY COOPERATION FUND), WHICH IS SUPPORTED BY BELGIUM AND ITALY, BUT OPPOSED BY FRANCE. FRANCE HAS IN THE BASE OPPOSED EC PROPOSALS THAT WOULD TEND TO STRENGTHEN THE FUND.

10. THE MONETARY COMMITTEE PAPER WILL FORM THE BASIS FOR THE DISCUSSION OF GOLD BY EC FINANCE MINISTERS IN THE NETHERLANDS APRIL 22. THE PAPER IS BEING SENT DIRECTLY TO THE NATIONAL CAPITALS AND WILL NOT--AT LEAST AT THIS TIME--BE SENT TO THE EC COUNCIL. OUR SOURCES TELL US THE MINISTERS WILL DISCUSS TWO POSSIBLE OUTCOMES. THE FIRST WOULD BE A COMMON POSITIONS ON AN INTERNATIONAL TRANSITIONAL SOLUTION. CONFIDENTIAL

CONFIDENTIAL

PAGE 03 EC BRU 02208 02 OF 02 121210Z

THE SECOND WOULD BE WHETHER OR NOT AN INTERNATIONAL TRANSITIONAL SOLUTION COULD BE APPROACHED THROUGH A REGIONAL EC ARRANGEMENT--POSSIBLY ALONG THE LINES OF PARAGRAPH 8--OR WHETHER THE LATTER SHOULD BE DISCUSSED ONLY IF IS CLEAR THAT THERE CAN BE NO AGREEMENT IN THE NEAR FUTURE THAT WOULD BE ACCEPTABLE TO MEMBERS OF THE IMF.MYERSON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMITTEE MEETINGS, ECONOMIC PROGRAMS, GOLD TRANSACTIONS, BANKS, FINANCIAL MARKETS, GOLD CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ECBRU02208
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X
Errors: N/A
Film Number: D740085-0295
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740446/aaaabpgj.tel
Line Count: 255
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) EC BRUSSELS 1808; B) EC BRUSSELS, 1531
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 01 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 APR 2002 by boyleja>; APPROVED <06 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC MONETARY COMMITTEE DISCUSSION OF GOLD, APRIL 5
TAGS: EFIN, EEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005